



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

OFFICE OF  
CHIEF COUNSEL

UIL: 453.00-00  
May 8, 2000

Number: **INFO 2000-0055**  
Release Date: 6/30/2000

The Honorable Joe Knollenberg  
U.S. House of Representatives  
Washington, D.C. 20515

Attention: Jeffrey Goff

Dear Mr. Knollenberg:

This letter responds to your inquiry dated March 27, 2000, on behalf of your constituent, [REDACTED] asked whether legislation enacted in December 1999 concerning the sale of businesses by taxpayers using an accrual method of accounting requires businesses to report capital gains from the sale on the full sales price regardless of the cash received.

The legislation he refers to is section 453(a)(2) of the Internal Revenue Code (the Code), added by the Ticket to Work and Work Improvement Act of 1999, and affects sales or other dispositions occurring on or after December 17, 1999. It states that generally, if a taxpayer uses an accrual method of accounting, the gain from the sale of the taxpayer's business cannot be reported on the installment method. When a taxpayer cannot use the installment method, the general rules of gain recognition apply, and the taxpayer must recognize gain on the full sales price at the time of the sale, regardless of the cash received.

After the Congress enacted section 453(a)(2) of the Code, taxpayers asked the Internal Revenue Service (IRS) to clarify how it applied to a variety of situations involving sales of businesses. In response, the IRS issued Notice 2000-26 on April 10, 2000, a copy of which is enclosed. This notice helps answer [REDACTED] questions.

In addition, the IRS issued Rev. Proc. 2000-22 on April 27, 2000, which provides guidance allowing businesses with \$1,000,000 or less in average annual gross receipts to use the cash receipts and disbursements method of accounting (the cash method). If [REDACTED] business qualifies for the small taxpayer exception of Rev. Proc. 2000-22 (copy enclosed), he may obtain automatic consent to change to the cash method for his first tax year beginning after December 17, 1999. Section 453(a)(2) does not prevent taxpayers using the cash method from using the installment method for reporting gain on the sale of a business.

I hope this information is helpful. If we can be of further assistance, please contact me at [REDACTED] or [REDACTED] of my office at [REDACTED]

Sincerely,

Heather C. Maloy  
Acting Assistant Chief Counsel  
(Income Tax and Accounting)

Enclosures